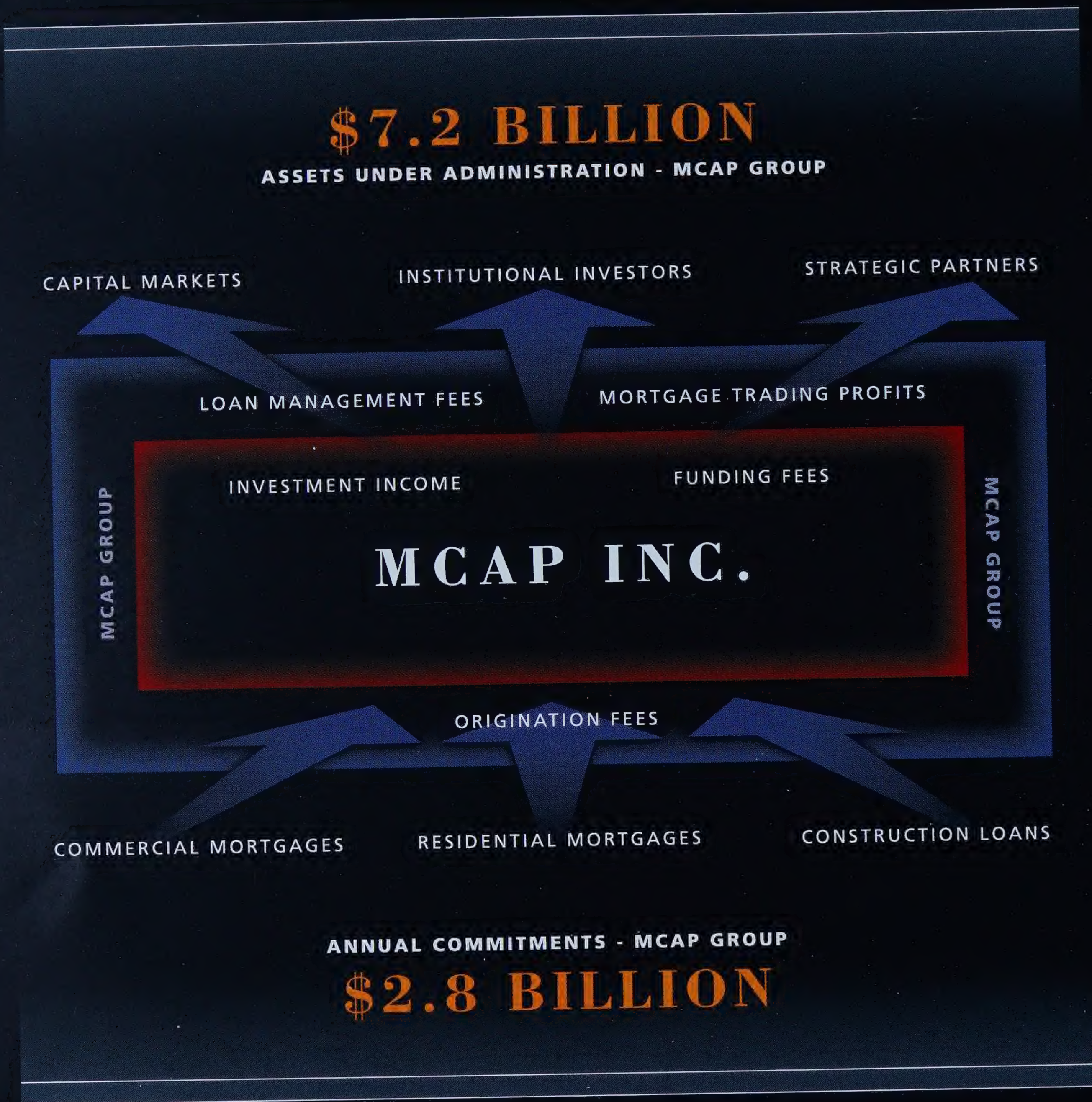
MCAP INC.

CANADA'S MORTGAGE SOLUTION PROVIDER

2000 ANNUAL REPORT



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Corporate Profile

- MCAP is involved in originating, funding and managing residential, commercial and construction mortgage loans; purchasing, pooling and reselling mortgages to third-party investors through MCAP's mortgage warehouse facility; and packaging and securitizing mortgages for the capital markets.
- MCAP combines the advantages of a federally regulated loan company and a public mortgage investment corporation with a full-service mortgage origination and management company. We provide access to CDIC-insured debenture financing, low leverage relative to the financial services industry, tax flow-through status, stable earnings, long-term fee income in addition to investment income, entrepreneurial management, and large institutional investor clients and partners.
- MCAP's business model is based on four core principles: expertise in and knowledge of our products, services and markets; innovation and aptitude for finding solutions; high professional and ethical standards; and independence in all dealings.
- MCAP management creates value for our shareholders by integrating our depth of experience and knowledge in mortgage loan origination and management with our expertise in financial structuring, securitization, investor marketing and investor relations.

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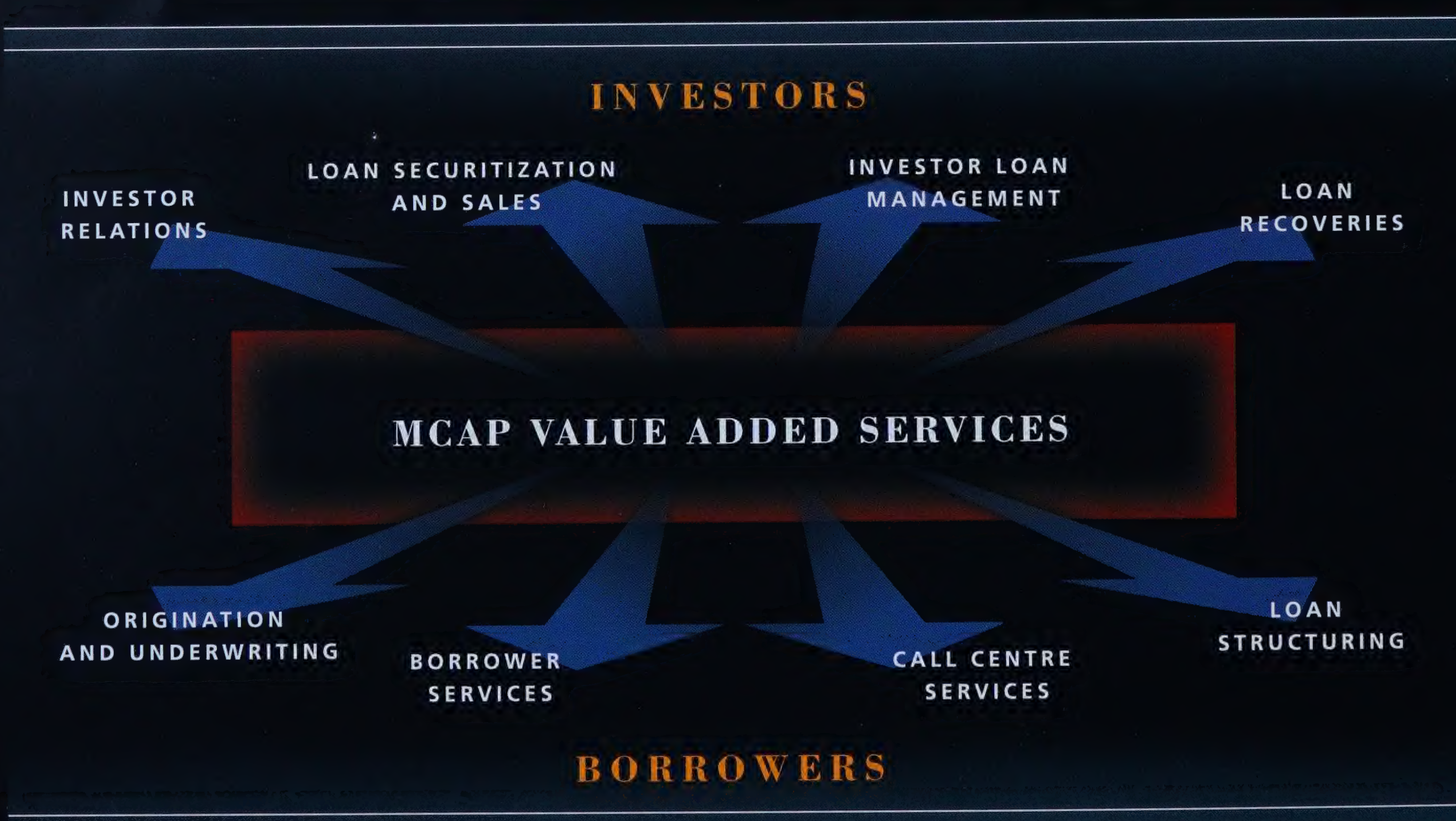
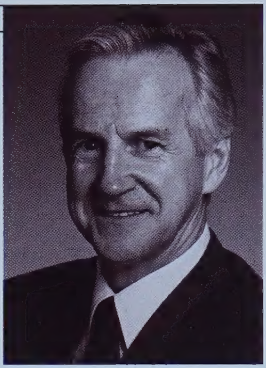
MCAP IS IN THE BUSINESS OF ORIGINATING, MANAGING AND SELLING MORTGAGES. OUR **VALUE-ADDED APPROACH** TO MORTGAGE SOLUTIONS MAKES US **A DYNAMIC NEW FORCE** IN THE CANADIAN MORTGAGE MARKET.



Message to Shareholders

RAYMOND DORÉ • *CHAIRMAN*



2000 WAS A YEAR OF TRANSFORMATION FOR MCAP INC. THAT BROUGHT SIGNIFICANT EARNINGS GROWTH AND A MUCH IMPROVED RETURN ON EQUITY. WITH THESE RESULTS MCAP HAS FURTHER SOLIDIFIED ITS POSITION AS THE LEADING INDEPENDENT MORTGAGE COMPANY IN CANADA.

Last year provided many opportunities for MCAP to grow and prosper, and your management team has worked hard to convert these opportunities into earnings. The most important part of our plan for maximizing shareholder value has focused on creating an optimal balance sheet to support not just the invested mortgage portfolio of MCAP Inc., but also the third-party mortgage loan origination, management and securities activities of the affiliated MCAP companies.

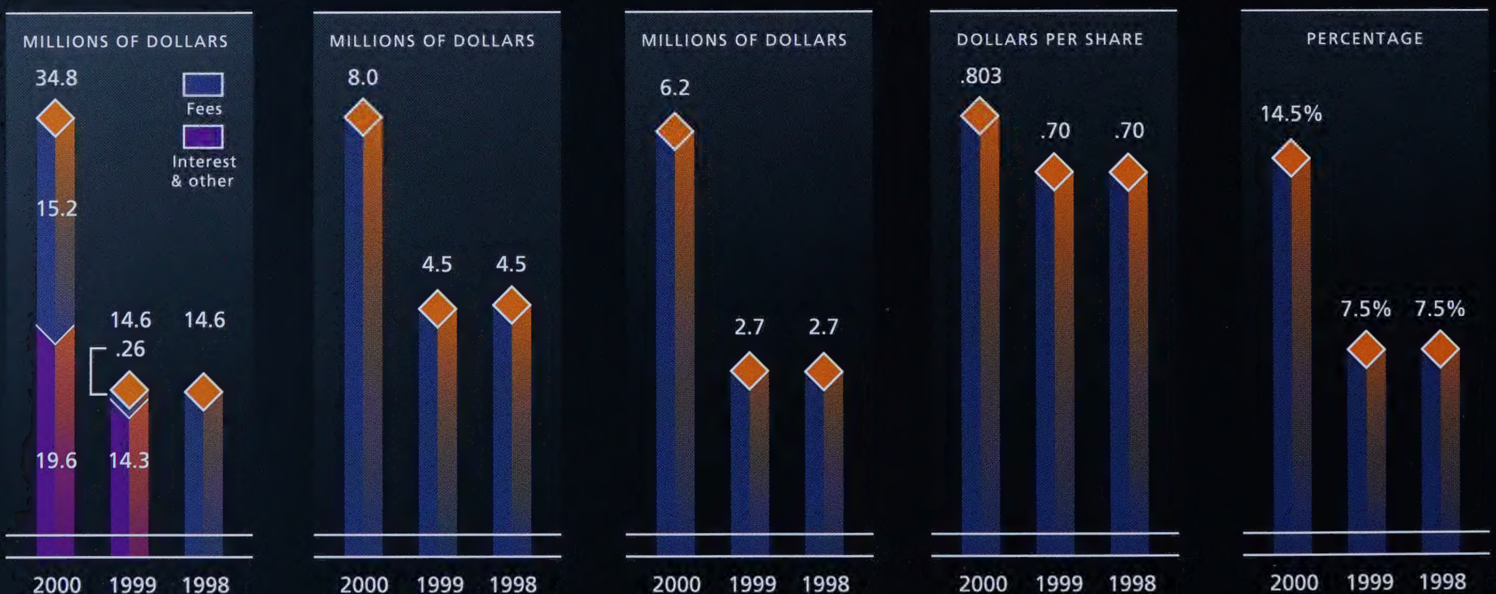
In past years, capital was deployed exclusively to support an invested mortgage portfolio; any growth in the portfolio required more capital in proportion to the amount of growth. While this structure remains a key part of MCAP's operations, other activities are becoming even more important. Through affiliated companies, MCAP is increasingly in the business of providing fee-based mortgage services to third parties. In 2000, over 60% of MCAP's net revenue was generated from fee income. Once the basic infrastructure is in place, mortgage loan production and management volumes can increase many times with relatively little increase in capital. The leverage implicit in this kind of fee-based business activity is significantly higher than the traditional mortgage investment business.

THERE ARE TWO KEY MESSAGES ARISING FROM MCAP'S EVOLVING BUSINESS MODEL:

To our existing shareholders, we offer an opportunity to leverage capital more effectively and gain higher returns without taking on significantly higher risk. In our fee-for-service businesses, we offer the stability of a revenue stream free of interest rate risk, with limited exposure to loan losses.

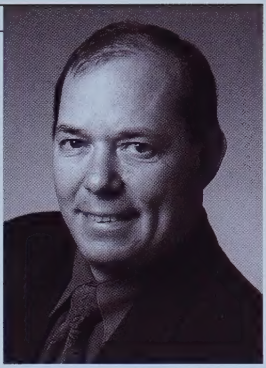
To our new and prospective shareholders, we offer an investment alternative to other Mortgage Investment Corporations and Real Estate Investment Trusts by providing the opportunity for earnings growth through our diverse revenue base and fee-for-service businesses. MCAP also gives shareholders an opportunity to profit from exposure to the rapidly changing Canadian and North American mortgage industry where well positioned, responsive specialists such as MCAP will be the key beneficiaries of change.

MCAP OFFERS SHAREHOLDERS A TAX-EFFICIENT EQUITY INVESTMENT IN THE CANADIAN MORTGAGE MARKET, FEATURING A SECURE CAPITAL BASE, PARTICIPATION IN FEE INCOME AND THE OPPORTUNITY FOR **LONG-TERM GROWTH** IN **EARNINGS** AND **SHAREHOLDER VALUE.**



GROSS REVENUE TOTAL | NET INVESTMENT INCOME | NET EARNINGS | EARNINGS PER SHARE | RETURN ON EQUITY

2000 REFLECTS MCAP INC. 1999 AND 1998 REFLECT MTC MORTGAGE INVESTMENT CORPORATION.



THE EVOLUTION OF OUR STRATEGY

MCAP's formula for success is to blend an innovative new business model with established management expertise and mortgage finance skills.

As MCAP evolved from a traditional mortgage investment corporation to an integrated mortgage services group for institutional investors, banks, and pension funds, we developed a business model designed to provide the company with sustainable, long-term growth. To enhance growth, we developed a number of new strategies that leverage our capital and expertise. Instead of using all of our capital to finance a pool of long-term mortgages in our investment portfolio, we utilize a portion of our balance sheet as a mortgage warehouse, which can fund and then re-sell mortgages on a regular basis, earning investment income and funding fees on each transaction in the process, while retaining the long-term servicing revenues in our affiliated companies. We are also looking to invest in mortgage ventures with our affiliated companies to earn significant incremental fee income.

Our plan is to use the balance sheet of MCAP Inc. as a tool as well as an investment vehicle to maximize earnings. We also continually promote strategic alliances that will enhance our competitive advantage within the Canadian mortgage and real estate finance market. MCAP evaluated numerous business opportunities during 2000, one of which resulted in the MCAP Commercial Limited Partnership between MCAP Financial Corporation and Crown Life Insurance Company. With a strong balance sheet and an integrated corporate strategy, MCAP is continuing to expand our position in the Canadian mortgage market.

WHERE DOES MCAP GO FROM HERE?

MCAP is focused on growing our fee-generating lines of business and enhancing our mortgage loan origination and funding profits. Our goal is to increase earnings 10% - 15% per annum and to increase shareholder value in turn.

Our progress in 2000 would not have been possible without the dedication of our employees, whose efforts are sincerely appreciated. Our Board provides us with outstanding counsel and continues to point the way to future success. We look forward to sharing a successful 2001 with all our shareholders.

Raymond Doré
Chairman of the Board

Derek Norton
President and Chief Executive Officer

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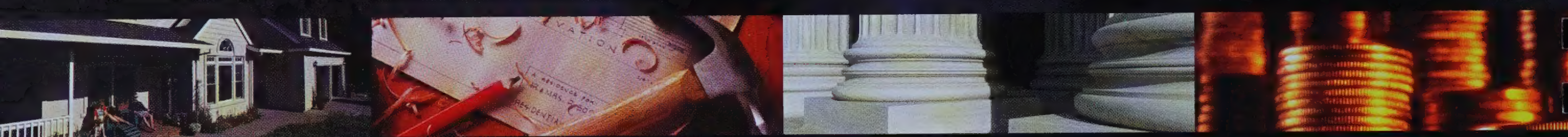
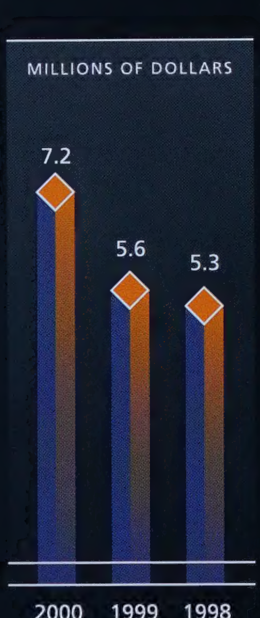
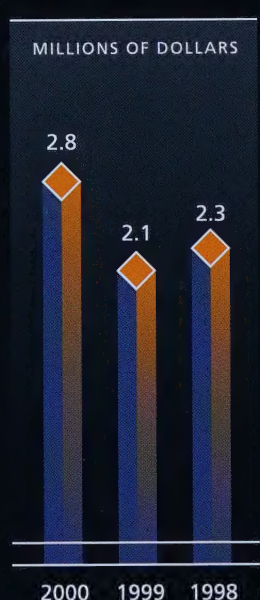
MCAP INC.
AND ITS AFFILIATED COMPANIES ARE
CANADA'S LEADING INDEPENDENT MORTGAGE GROUP,
COMMITTED TO DELIVERING
A FULL RANGE
OF SERVICES AND PRODUCTS TO
THE CANADIAN MORTGAGE MARKET.





ASSETS UNDER ADMINISTRATION



COMMITMENTS

GROSS FEE REVENUE

GRAPHS REFLECT TOTAL OPERATIONS OF MCAP GROUP OF COMPANIES.

Questions and Answers about MCAP Inc.

MCAP'S SOLUTIONS-BASED OPERATIONS ARE BUILT ON A SET OF PROCESSES AND SERVICES DELIVERED CONSISTENTLY AND COMPETENTLY. THE FOLLOWING Q&A DESCRIBES THE MODEL AND ITS MAIN PROCESSES, GIVES INSIGHT INTO MCAP'S COMPETITIVE POSITION AND EXPLAINS SOME OF THE KEY RELATIONSHIPS THAT UNDERPIN OUR SUCCESS.

Q Is there any parallel to the kind of business activity in which MCAP is engaged in Canada?

A The Mortgage Bankers Association of America (MBA), an international association of financial services companies which act as intermediaries in the mortgage investment industry, describes its industry as follows: "The industry MBA represents, mortgage banking, is involved in making, selling and servicing mortgages secured by residential or commercial (i.e. income-producing) real estate. Mortgage bankers serve as middlemen, arranging and making loans using short-term funding, and then selling these loans to other lenders and investors, both within the U.S. secondary market and abroad." The activities engaged in by MBA members are a good parallel to the services provided by the MCAP Group. MCAP is a member of the MBA.

Q What does mortgage loan origination mean?

A Mortgage loan origination is the process of finding suitable mortgage investment opportunities, evaluating the credit risk involved, making a loan decision, creating a contract with the borrower, ensuring that all parties have fulfilled the conditions of the contract, and finally funding the mortgage loan. In addition to direct contact with borrowers, MCAP utilizes a number of channels to generate referrals for mortgages, including a network of independent mortgage brokers as well as life insurance agents, lawyers, financial planners and other similar groups. An important part of MCAP's job is to make sure that all terms of the mortgage loan agreement are met and that the credit evaluation process is rigorous. Once all conditions have been met, MCAP will arrange funding with an investor.

Q How do investors become involved?

A Investors play a key role in facilitating the mortgage loan origination process as well as in MCAP's overall corporate success. Different investors have different tolerances for risk, requirements for certain types of loan and appetites for volume or loan size. Investors usually choose one of the following ways to invest in mortgages: through direct investment, investing in a pool of mortgages, or through a securitization. These considerations dictate how MCAP directs its marketing and business development activities on the lending side.

Q What is mortgage loan management?

A Mortgage loan management describes the process of caring for borrowers during the life of each mortgage loan as well as for the unique needs of investors and other business partners. MCAP utilizes a team of customer service specialists for residential and commercial borrowers. Using advanced call centre and mortgage management technology, we respond to requests for loan amendments, update account information and provide regular reports on the status of each borrower's loan. For investors, MCAP's investor relations group provides detailed reports on the yield and asset quality of their invested portfolios as well as access to

new investment opportunities and liquidity management services. Other corporate customers and partners look to MCAP to provide mortgage process solutions, support innovative retail mortgage programs, or access new markets and channels.

Q How is MCAP paid for its services?

A MCAP is paid for its services in a number of ways depending on the type of activity and other considerations. For residential mortgages, MCAP receives a fee from the investor to originate, service and renew the loan in addition to fees from borrowers earned for providing extra services, such as payment processing and tax remittance. In mortgage sales and warehousing, MCAP is compensated from the net interest earned while the loan is on its balance sheet, plus a warehousing profit taken when the pool is sold. In commercial and construction lending, MCAP earns origination, servicing and renewal fees as well as participation fees where development profit is shared with the developer.

Q Who is MCAP's competition in Canada?

A There is no one company in Canada that competes in all of MCAP's markets or offers all of MCAP's services. While mortgage bankers in the U.S. are the closest parallel, MCAP is unique in the Canadian market. MCAP's special tax status is comparable to a flow-through fund or REIT. The company's diverse sources of fee revenue are similar to a financial services organization. The origination fee structure can be compared to a mortgage broker. Earnings from invested mortgages and escrow balances are comparable to a mortgage investment corporation. MCAP's cross-disciplinary team approach is similar to a professional services organization or consulting practice. Mortgage warehousing and securitization activities are comparable to those of a securities firm.

Q How does the competitive environment affect the way MCAP is working today?

A First, the mortgage market in Canada is mature, which translates into a high level of competition and constrained growth opportunities in new residential, commercial and construction mortgage loans. However, as a result of its third-party, fee-based activities, MCAP has been able to create cost-saving synergies and enjoy enhanced earnings on its mortgage businesses. Second, the falling level of federal and provincial government debt (reflected in lower bond issuance) has left investors seeking new investment vehicles. With a securities subsidiary and access to large pools of quality funded mortgages, MCAP is well positioned to offer these investors the investment product they require, on competitive and profitable terms. Third, financial institutions and insurance companies are increasingly using outsourcing solutions to manage their own mortgage portfolios, which is MCAP's speciality. Because of its competitive advantages, MCAP has been able to create profit opportunities out of what has been traditionally a low margin, competitive market.

Q Are there any other services provided by MCAP?

A MCAP extends its mortgage loan origination expertise to high net worth individuals around the world through its Immigrant Investor Program (IIP). Managed by MCAP Securities Inc., the IIP provides an opportunity for immigrant investors to become Canadian citizens by investing in Canadian businesses through corporate loans. By investing a prescribed amount (financed by MCAP), the investor may speed up his or her immigration process. The IIP supports both federal and provincial immigrant investor programs.

Report on Operations

The most important event of 2000 for MCAP was the business combination that resulted in the formation of MCAP Inc. (the "Company"). Effective January 1, 2000, the Company was formed through the combination of MTC Mortgage Investment Corporation (MTC), Interior Capital Corporation (ICC) and MCAP Financial Corporation (MFC). The combination was treated as a reverse takeover by MFC.

The combination brought the balance sheet strengths of MTC and a TSE public listing together with the construction loan, commercial term mortgage, and residential mortgage loan origination and management capabilities of MFC. The business of MFC provides improved access to mortgage loans for MTC, a solid base of managed mortgages and fee revenues, and a management and operational infrastructure that should allow the new combined company to grow, improve earnings and enhance shareholder value.

Business combinations are complex, and ensuring a successful transition while establishing new visions and strategies requires a significant time commitment on the part of senior management and the Board of Directors. 2000 was a year of transition for MCAP that saw improved earnings, the establishment of a clear corporate mandate and many new business opportunities that management examined and evaluated over the year.

Recent Business Developments

The formation of MCAP Commercial Limited Partnership (LP), which brought together the commercial term mortgage capabilities of Crown Life with those of the Company, created a new force in the commercial mortgage market. LP began its operation with a portfolio under management of $1.2 billion and a plan to originate $300 million in new commercial term mortgages. LP is a national commercial term mortgage origination operation, which services commercial term mortgages in both Canada and the United States. This partnership became operational September 1, 2000, but its growth opportunities will begin to emerge in 2001. During the year, the Company signed a $500 million commercial term mortgage servicing account for a major life insurer, which formed part of the LP assets under administration.

In addition to LP, the Company expanded its strategic investments with partners in the Canadian mortgage industry. In 1999, the Company invested $1 million in Penreal Property Trust II (Penreal) and by December 31, 2000 increased that to $2.5 million. Penreal is a mortgage trust, funded largely by pension funds, which invests in the Company's residential and commercial construction loans. Late in the year, the Company made a $1 million investment in Filogix, a mortgage origination and technology company providing residential mortgage loans to lenders. This investment strategically places the Company alongside a number of the major banks, and provides greater access to lower cost, broker-originated mortgages. The Company will seek out and evaluate investment opportunities that are congruent with the vision and mandate of the Company as approved by the Board of Directors.

The Company continued to enhance its network of investors and strategic partners during the year. Three new agreements with major life insurers and a bank were completed. These agreements further expanded our residential construction origination and servicing business along with commercial and residential loss recovery services.

Results from Operations

Earnings for the year were $6.2 million, up $3.5 million from MTC earnings of $2.7 million in 1999. Earnings per share were $0.80 vs. $0.70 per share in 1999. This reflects a 14.7% improvement in earnings per share over last year. Return on equity was 14.5%, exceeding the previous MTC benchmark return on equity of 7.5%.

During the year, income-earning assets held on the balance sheet were fine-tuned by adjusting the asset mix to further enhance earnings. Increased holdings of high yield construction loans became possible late in the third quarter after the Office of the

Superintendent of Financial Institutions (OSFI) granted an increase in terms of holding these loans from 15% to 20% of total assets.

Net Investment Income

Net investment income improved 47% to $8.1 million, compared to $5.5 million last year on a pro forma basis. In addition to increased holdings of construction loans, net investment income also increased due to strong performance from the marketable securities portfolio, which generated a yield, net of losses, of 15.8%. Mortgage trading activities contributed $505,000 on total asset sales of $174 million. At December 31, matched spreads on investments maturing within 12 months improved to 2.6% from 1.75% in the previous year, while the matched spread on assets maturing in one to five years fell to 1.95% from 2.09%. The overall spread rose from 2.99% to 3.38%.

Fee Income

Fee income primarily derived from the mortgage loan origination and management business of MFC contributed $15.2 million, down from $18.3 million on a pro forma basis. A slow start to construction loan origination at the beginning of the year, combined with the sluggish Vancouver housing market and fewer loan sales, resulted in diminished fee income during the early part of the year. Residential construction activity picked up during the summer months and greater investor demand resulted in total loan advances of $629 million, while $504 million in new residential construction commitments were generated. The Company is currently involved in 251 different projects representing a 5-12% market share in the markets it services. The Company continues to focus on Toronto and South Western Ontario, Vancouver, Calgary and Edmonton. The commercial term mortgage business was in transition during the year as the commercial joint venture was being structured with Crown Life. During the year, the commercial business advanced $55 million in new loans. The commercial portfolio under management grew from $232 million at December 31, 1999 to $1.2 billion by the end of 2000. The Company, including the commercial joint venture, finished the year with $1.6 billion in loans under management, up from $714 million on a pro forma basis from a year earlier.

Operating Expenses

Operating expenses of $17.7 million were $4.2 million lower than in 1999 on a pro forma basis. However, 1999 expenses included a one-time special bonus to shareholder employees of MCAP Financial Corporation of $5.6 million prior to the business combination. MCAP's business is technology and people intensive, and during the year the introduction of a new residential construction system resulted in a portion of the capitalized cost of development and implementation of this system to be charged to expenses. Containment of operating expenses is a critical success factor in a low margin business. During the year, additional costs were borne as the Company worked through its transition agenda, and additional professional fees were incurred over the previous period as numerous business opportunities were evaluated.

Affiliated Companies and Other Investments

Equity earnings from affiliated companies, MCAP Mortgage Corporation, MCAP Service Corporation and MTC Leasing Inc. contributed $370,000, a 23% improvement over 1999. The residential mortgage business funded $1.5 billion of new loans and generated new commitments of $2.3 billion versus $1.0 billion and $1.5 billion respectively for 1999. In addition, mortgage loans managed by MCAP Service Corporation rose from $4.7 billion to $5.6 billion. Opportunities to expand new origination and managed mortgage portfolios continue to be evaluated.

Credit Risk and Provisioning

Provisions for credit losses during the year totaled 0.22%. A portion of this was used to provide for identified loan loss exposures (0.09%) and the balance was used to increase the general allowance.

The general allowance for loan losses ended the year at 1% of risk-weighted assets.

Financial Position

Total assets at December 31, 2000 were $246 million, an increase of 5.3% over combined assets of $234 million in 1999. All assets are well diversified by borrower, region and maturity.

Asset mix at December 31 was as follows:

	2000	MTC 1999	MTC 1998
Cash and cash equivalents	**8.6%**	5.7%	6.4%
Marketable securities	**3.7**	4.5	0.9
Residential mortgages	**64.8**	71.8	80.9
Residential construction loans	**12.9**	12.3	9.7
Non-residential construction loans	**0.9**	-	-
Commercial term mortgages	**1.6**	3.7	2.1
Investor loans	**2.5**	1.4	-
Other investments	**0.8**	-	-
Other assets	**4.2**	0.6	-
	100%	100%	100%

Cash equivalents include treasury bills, bank deposits and commercial paper. These investments are held to ensure adequate liquidity to meet maturing debenture and mortgage commitments.

Marketable securities comprise a diversified portfolio of real estate, income and royalty trusts. These investments are matched by the Company's equity base and improve returns and the diversification of the Company's investment portfolio. The Company's investment policy limits marketable securities to 10% of total assets.

Residential mortgages include uninsured mortgages with a loan-to-property value of 75% or less and insured mortgages with over 75% of property value. Mortgages are typically granted for terms of six months to five years and can be funded by debentures with similar maturities.

Residential construction loans finance home builders in residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. These loans are funded with short-term debentures. The Company has had no loan losses on this type of mortgage during the year. The Company limits non-residential construction loans to 2% of assets. Total construction loans (residential plus non-residential) are limited to 20% of total assets.

Commercial term mortgages secure commercial properties and have a loan-to-property value of 75% or less. These mortgages have terms ranging from six months to five years. No losses were incurred on commercial term mortgages in 2000. The Company limits its investment in these assets to 5% of total assets.

Investor loans are loans to individuals immigrating to Canada under the Quebec Immigration Program which are fully secured by the Company's own debentures or cash equivalents. These loans are limited to 10% of assets.

Investments in partly owned companies are equity investments in affiliated companies, MCAP Mortgage Corporation, a residential mortgage loan origination company, MCAP Service Corporation, a residential mortgage loan management company, and MTC Leasing Corporation, a financial leasing company.

Other assets include investments made in companies within the mortgage industry that are of strategic interest to the Company. These investments are subject to the Board of Directors' approval.

Net impaired loans ended the year at 0.7% of the total loan portfolio, up from 0.4% in 1999. Losses and specific provisions were within the industry norm at 0.09% of total mortgages (1999 - 0.06%). General allowances were increased by $259,853 in 2000 to 1.0% of risk-weighted assets, up from 0.8% at December 31, 1999.

Funding

The Company issues debentures, insured by Canada Deposit Insurance Corporation, largely to individuals. The Company has matched the re-pricing of its assets with its liabilities such that earnings will not be materially affected as a result of changes in interest rates. The one year gap, as indicated in Note 13 to the financial statements, was 3.2% of total assets,

compared with 0.5% at the end of 1999. The Company is well positioned against changes in interest rates.

Capital Adequacy

Mortgage investment companies are limited by law to maximum debt leverage of five times their equity base. This ratio is significantly lower than that of banks and trust companies, which often have leverage of over 20 times equity capital. The Company's low leverage combined with its relatively conservative asset mix reduces the risk of earnings cyclicality or loss of book value.

Liquidity

Liquidity risk is the risk that the Company will not have access to sufficient cash to meet its liabilities as they become due. The Company monitors its liquidity position closely and generally maintains liquid investments exceeding 20% of debentures maturing within 90 days. In addition, all marketable securities and residential mortgages are marketable in a one to three month time frame, providing a very strong liquidity position.

Risk Management

The Company has established risk management policies and procedures designed to measure and control risk in all of its business activities. These policies and procedures are reviewed periodically by senior management, the Board of Directors, internal auditors and regulators.

Under the direction of the Board of Directors, management develops all risk management policies. Policies and procedures with respect to asset-liability mismatch risk, liquidity risk and credit risk are approved by the Board. All risk management policies and procedures are subject to review at least annually to evaluate their continued appropriateness. Management reports to the Board of Directors on all key risk exposures.

The Company is subject to risks of competition, credit losses, interest rate movement and market risk. The most significant risk is that of competition. The markets for residential mortgages and insured deposits and debentures are extremely competitive and the spreads can be constrained. The Company mitigates this risk through diversifying its investments and vigorous attention to asset and liability management.

Credit losses occur when a borrower fails to meet its obligations to the Company and the value realized on sale of the real estate deteriorates below the loan amount. The Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of the Company's investments. The Company's policies establish limits on concentration by asset class, rating, geographic region, dollar limit and borrower. All personnel are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is monitored through a reporting process that includes a formal quarterly review involving senior management and the Investment Committee of the Board of Directors.

Managing the term of mortgages and debentures reduces interest rate risk. The Company's Asset and Liability Management Committee manages this risk weekly, and management reports to the Board quarterly on its compliance with the Company's matching criteria.

Market risk on marketable securities is managed through prudent investment selection and diversification by security and industry. Marketable securities are matched by the Company's equity base and are currently limited by the Company's investment policy to less than 10% of assets.

Other operating risks faced by the Company include legal, tax, regulatory and environmental risks. Senior management develops risk identification and compliance monitoring policies, processes and internal operational controls to manage these risks. Each business unit is then responsible for identifying risks and managing them daily in accordance with these policies, processes and controls.

Internal auditors review the effectiveness of certain internal controls and report regularly to senior management. External auditors review the

effectiveness of internal controls to the extent necessary to conduct an audit of the annual financial statements and report to the Audit Committee of the Board of Directors annually on matters that come to their attention as a result of such audit.

Outlook

The Company's plans for the coming year are centered around building its fee-based business and increasing the mortgage trading profits. To be successful in achieving this vision, the Company must continue to focus on its key strengths: provide experience and expertise in mortgage loan origination, funding and management for investor clients, and easy, cost-effective access to the markets; ensure quick, efficient loan approvals and knowledgeable servicing and funding for borrowers; and operate the balance sheet as a warehouse that allows the Company to fund loans and sell them through its various conduits to the capital markets or as direct sales to institutional investors or strategic partners, while retaining long-term servicing and renewal rights.

The opportunities and challenges the Company will face in 2001 will be dependent on changes to the economy and the competitive landscape. Volatility in the equity markets over the past 12 months combined with a weakening economy in the United States and the broader North American markets may result in a slowdown in new housing starts, properties available in the resale market and overall housing demand. While the Company remains optimistic about the coming year, we will take a cautious view of our markets until the economic environment becomes more stable, and the impact of any policy shifts from the new U.S. government administration or the Bank of Canada become clear.

The competitive landscape in the commercial mortgage industry has been under considerable change over the past few years. It is not uncommon to see banks move in and out of the business depending on economic views, spreads, new relationships, and other factors. Meanwhile, consolidation continues within the life insurance industry, which for years has been a reliable source of commercial mortgage funds. These changes, while creating uncertainty in the marketplace, also create opportunity for MCAP.

The residential construction lending business gets more complicated every year as building codes and municipal approvals become more complex and the market gets more sophisticated. MCAP has a very experienced, knowledgeable team in this area and sees continued growth and profit opportunities, particularly as the barriers to entry for this line of business continue to increase.

There are also changes taking place in the residential mortgage market. More and more consumers are turning to new sources to get their mortgage on the most competitive terms. These include mortgage brokers, the internet and non-financial retailers. At the same time, the banks are looking at new, cost-effective means to distribute their products other than the traditional branch network. As a result, the larger residential brokers are consolidating, developing a more educated, more professional sales force and using technology to service the consumer, and new electronic distribution channels are being developed. The Company is strategically well positioned through its affiliate operations of MCAP Mortgage Corporation and MCAP Service Corporation to work together with the brokers, non-financial retailers and small financial institutions to take advantage of the new market opportunities as they arise.

The Company will seek opportunities to grow through acquisition, raising new capital or strategic partnering, but only in circumstances where additional risk is minimized, the transaction is accretive to shareholder value and fits into the Company's long-term strategic plan. It appears there will be many excellent opportunities for the Company in the near future as the expected changes in the financial services industry and mortgage market in Canada unfold. With an experienced management team and the support of the Board of Directors, we look forward to taking advantage of these opportunities as they arise.

Management Responsibility for Financial Reporting

The accompanying consolidated financial statements of MCAP Inc. are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these financial statements and other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

Appropriate systems of internal control, policies and procedures have been maintained to provide reasonable assurance that the Company's assets are safeguarded and to ensure that financial information is both relevant and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management and the external auditors to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with auditing standards generally accepted in Canada. Ernst & Young LLP has full and free access to the Audit Committee.

Derek Norton
President and Chief Executive Officer

L. S. Jenkins

Lorne S. Jenkins
Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of MCAP Inc.

We have audited the consolidated balance sheets of MCAP Inc. as at December 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada.

As discussed in Note 1 to the consolidated financial statements, the financial position, results of operations and cash flows of MTC Mortgage Investment Corporation as at and for the year ended December 31, 1999 have been included in the consolidated financial statements as supplemental financial information. This supplemental financial information was audited by us as set forth in our opinion expressed without reservation in our report to the shareholders of MTC Mortgage Investment Corporation dated January 21, 2000.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants, Toronto, Canada
January 21, 2001

Consolidated Balance Sheet (Basis of Presentation – Note 1)

(Dollars in thousands) As at December 31,	Note	2000	1999	MTC 1999
ASSETS				
Investments				
Cash and cash equivalents	3	**$ 21,211**	$ 7,505	$ 12,123
Mortgages	4	**197,616**	8,206	185,416
Other investments	5	**17,169**	805	12,547
		$ 235,996	$ 16,516	$ 210,086
Accounts receivable	6	**5,155**	2,194	-
Capital assets	7	**2,980**	2,439	-
Other assets	8	**2,324**	1,470	1,348
		$ 246,455	$ 22,619	$ 211,434
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Debentures	9	**$ 189,650**	$ -	$ 174,314
Accounts payable	6	**8,831**	13,123	1,103
Loans payable	10	**5,029**	2,198	-
		203,510	15,321	175,417
Shareholders' equity				
Share capital	11	**42,454**	7,761	36,017
Retained earnings (deficit)		**491**	(463)	-
		42,945	7,298	36,017
		$ 246,455	$ 22,619	$ 211,434

See accompanying notes

On behalf of the Board:

Raymond Doré
Chairman of the Board

Derek Norton
President and Chief Executive Officer

Consolidated Statement of Income and Related Earnings

(Dollars in thousands except for per share amounts) Year Ended December 31,	Note	2000	1999	MTC 1999
Investment Income				
Mortgage interest income		**$ 14,887**	$ 367	$ 12,909
Interest on cash and cash equivalents		**2,393**	1,376	612
Other income		**2,386**	841	868
		19,666	2,584	14,389
Financial Expenses				
Interest expense		**10,677**	985	8,977
Other expenses		**934**	651	874
		11,611	1,636	9,851
Net investment income		**8,055**	948	4,538
Fee income		**15,198**	19,582	269
Revenue from operations		**23,253**	20,530	4,807
Operating Expenses				
Salaries and benefits		**8,349**	15,309	-
General and administrative		**6,467**	3,767	2,044
Occupancy		**1,791**	1,521	-
Information systems		**1,109**	839	-
		17,716	21,436	2,044
Income (loss) before income taxes		**5,537**	(906)	2,763
Provision for (recovery of) income taxes and large corporation taxes	12	**(673)**	(365)	58
Net income (loss) for the period		**$ 6,210**	$ (541)	$ 2,705
Retained earnings (deficit), beginning of period		**(463)**	78	74
Dividends		**(5,256)**	-	(2,779)
Retained earnings (deficit), end of period		**$ 491**	$ (463)	$ -
Earnings per share		**$ 0.803**	$ 0.070	$ 0.700
Dividends per share		**$ 0.680**	$ -	$ 0.719
Average # of shares (000's)		**7,729**	7,703	3,865
# of shares at February 15, 2001 (000's)		**7,729**		

See accompanying notes

Consolidated Cash Flow Statement

(Dollars in thousands) Year Ended December 31,	2000	1999	MTC 1999
Cash Provided by (used for):			
Operating Activities			
Net income for the period	**$ 6,210**	$ (541)	$ 2,705
Adjusted for non-cash items:			
Equity income from partly owned companies	**(371)**	(301)	-
Provision for losses	**476**	-	427
Amortization of capital assets	**772**	665	-
Amortization of other assets	**354**	437	-
Amortization of mortgage premium/discounts	**(9)**	-	-
Future tax assets	**(642)**	(378)	-
Provision for decline in value of marketable securities	**160**	-	449
(Increase) decrease in non-cash working capital:			
Mortgages held for resale	**(200)**	(2,780)	-
Receivables	**(3,121)**	465	-
Creditors	**(6,144)**	4,624	728
Cash flows from (for) operating activities	**(2,515)**	2,191	4,309
Investing Activities			
Marketable securities	**350**	-	(8,162)
Mortgage advances	**(103,019)**	-	(131,990)
Mortgage repayments	**98,758**	(112)	132,163
Investor loans	**(3,165)**	-	(2,979)
Dividends received from partly owned companies	**211**	247	-
Additions to capital assets	**(1,313)**	(895)	-
Additions to other assets	**(541)**	(1,129)	(1,255)
Additions to other investments	**(1,002)**	-	-
Increase in cash related to business combination	**12,923**	-	-
Cash flows from (for) investing activities	**3,202**	(1,889)	(12,223)
Financing Activities			
Increase (decrease) in loans payable	**2,831**	(2,722)	-
Issue of debentures	**294,849**	-	263,353
Repayment of debentures	**(279,404)**	-	(253,467)
Issuance (redemption) of common shares	**(1)**	357	-
Dividends	**(5,256)**	-	(2,779)
Cash flows from (for) financing activities	**13,019**	(2,365)	7,107
Increase (decrease) in cash and cash equivalents	**13,706**	(2,063)	(807)
Cash and cash equivalents, beginning of period	**7,505**	9,568	12,930
Cash and cash equivalents, end of period	**$ 21,211**	$ 7,505	$ 12,123
Supplementary Information			
Interest paid during the year	**$ 11,026**	$ 91	$ 8,905
Taxes paid during the year	**$ 103**	$ 985	$ 59

See accompanying notes

(Dollar amounts in thousands except for share amounts)

1. Basis of Presentation

MCAP Inc. (the "Company") is a loan company under the Trust and Loan Companies Act (Canada) and a mortgage investment company under the Income Tax Act (Canada). The Company was formed on the combination on January 1, 2000 of MTC Mortgage Investment Corporation (MTC), MCAP Financial Corporation (MCAP) and Interior Capital Corporation (ICC). The combination was effected by an exchange of shares of MCAP and ICC for shares of MTC and accounted for as a reverse takeover, with MCAP being deemed the acquirer for accounting purposes. Immediately after the combination was completed, the Company changed its name to MCAP Inc. As part of the combination, certain assets, liabilities and businesses were transferred to a newly formed subsidiary company. The accounts of the subsidiary company (now named MCAP Financial Corporation) have been consolidated in this financial statement.

Details of the combination are as follows:

Cash	$ 12,923
Investments	199,152
	212,075
Current liabilities	176,058
Shares issued as consideration (net of costs)	$ 34,694

Comparable balances in the financial statements for 1999 reflect those of MCAP which was primarily a service company. Although generally accepted accounting principles require that MCAP be the comparative to current year results, MTC's 1999 twelve month results have been included for further clarity.

2. Summary of Significant Accounting Policies

As required under subsection 313(4) of the Trust and Loan Companies Act, these financial statements have been prepared in accordance with the requirements of the Trust and Loan Companies Act, which states that, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), the financial statements are to be prepared in accordance with generally accepted accounting principles in Canada. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the Superintendent, are summarized below. These accounting principles conform, in all material respects, to generally accepted accounting principles.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, MCAP Financial Corporation and MCAP Securities Inc.

The results of MCAP Financial Corporation include 50% of the results of MCAP Commercial Limited Partnership, a joint venture operation between MCAP Financial Corporation and Crown Life Insurance Company. The joint venture operation was effective September 2000.

The Company's 20% interest in MCAP Mortgage Corporation and MCAP Service Corporation are accounted for using the equity method. The Company's 10% interest in MTC Leasing Inc. is also recorded on the equity basis as the Company exercises significant influence.

The purchase method has been used to account for all acquisitions. Intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include short term investments with maturity dates of less than 90 days at the date of acquisition. Cash equivalents are stated at cost plus accrued interest.

Marketable Securities

Marketable securities are stated at cost less any provisions for decline in value which is other than temporary.

Mortgages and Mortgages held for Resale

Mortgages held directly by MCAP Inc. are long term investments and are carried at the principal amount outstanding plus accrued interest less unearned income and an allowance for loan losses.

Certain mortgages held for resale by MCAP Inc. and MCAP Financial Corporation as part of trading inventory are stated at estimated market values.

Impaired Loans

Interest on mortgages is accrued as earned until such time as the loan is classified as impaired. At that time a specific provision is made to the allowance for loan losses to reflect management's estimate of realizable amounts and the related provision is charged to income. Impaired loans are restored to an accrual basis when principal and interest payments due become current and there is reasonable assurance as to ultimate collectibility.

Impaired loans include non-insured loans which are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected. An insured loan is considered impaired when the loan is 365 days past due, whether or not collection is in doubt.

Restructured Loans

Restructured loans are those loans where, because of the weakened financial condition of the borrower, the terms have been modified. These loans are carried at the net present value of future cash flows, discounted at the contractual interest rate in effect immediately prior to the restructuring. Restructured loans are not included in impaired loans if the borrowers have complied with the terms and management has reasonable assurance that principal and interest under the new terms will be collected.

Real Estate

All real estate is acquired in settlement of loans and is carried at the lower of estimated realizable value or the loan amount, and any difference between this and the loan amount is charged to the allowance for loan losses.

Allowance for Loan Losses

An allowance for loan losses, consisting of specific and general provisions, is maintained at a level that, in management's judgement, is adequate to absorb all credit related losses in the Company's portfolio. Specific provisions include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general provision includes provisions for losses which are prudent in nature and cannot be determined on an item-by-item basis.

The allowance is increased by provisions for losses which are charged against income, and reduced by write-offs net of recoveries. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further collection is considered to be remote.

In management's judgement, no abnormal credit risk exists and these levels of loan loss provisions are adequate to absorb all credit related losses in the Company's portfolio, given existing conditions.

Recognition of Revenue and Expenses

(a) Fees received on mortgages are deferred and amortized into income over the term of the mortgage.
(b) Amounts received on the buydown of mortgage interest rates are deferred and amortized over the term of the mortgage.
(c) Commissions paid on the sale of debentures are deferred and amortized over the term of the debenture.
(d) The gain or loss on sale of mortgages held for resale is recorded at the time of sale, net of hedging and origination costs.
(e) Mortgage administration fees are recorded as earned and are presented net of administration fees paid to other parties.
(f) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the loan.

Capital Assets

Capital assets are recorded at cost. Depreciation is recorded at the following rates:

Furniture and fixtures	20% declining balance
Computer hardware	30% declining balance
Leasehold improvements	One lease term & renewal
Computer software	One year to five years straight line

Expenses incurred for the development or enhancement of operating systems for which an economic benefit can be determined, are deferred and amortized over the expected benefit period, to a maximum of five years. Amortization commences when a significant project phase is completed.

Future Tax Assets

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by the Canadian Institute of Chartered Accountants' Handbook Section 3465, Accounting for Income Taxes. As permitted by the new rules, prior year financial statements have not been restated. The cumulative effect of this change as of January 1, 2000 was not material.

Foreign Exchange

Foreign currencies are translated into Canadian dollars at year-end rates of exchange for monetary items and at exchange rates prevailing at the respective transaction dates for both non-monetary foreign assets and liabilities, and income and expense items.

Financial Instruments

The fair market value of financial items is approximately equal to recorded amounts unless otherwise disclosed.

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

- **Financial Instruments Valued at Carrying Value** Due to their short-term maturity, the carrying values of cash equivalents, mortgages held for resale, other receivables and accounts payable approximate their fair values.

(Dollar amounts in thousands except for share amounts)

- **Marketable Securities** Fair values are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.
- **Mortgages and Investor Loans** The fair values of mortgages and investor loans are estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar mortgages and loans at December 31 to expected maturity amounts.
- **Real Estate** All real estate is acquired in settlement of loans and is carried at the lower of estimated realizable value or the loan amount. Accordingly, the fair value of real estate is its carrying value.
- **Debentures** The estimated fair values of debentures are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.
- **Quebec Immigrant Investor Program** Costs related to the participation in a program to attract immigrant investor transactions have been deferred. These costs are charged to expense as the related income is recognized.

3. Cash and Cash Equivalents

	2000	1999	MTC 1999
Cash and deposits	**$ 764**	$ 3,765	$ 3,711
Bankers' acceptances, term deposits and commercial paper	**20,375**	3,735	8,386
Accrued interest	**72**	5	26
	$ 21,211	$ 7,505	$ 12,123

4. Mortgages

	2000	1999	MTC 1999
Conventional mortgages	**$ 166,055**	$ -	$ 157,602
NHA insured mortgages	**21,418**	-	27,854
Mortgage held for resale	**7,906**	7,706	-
Real estate	**16**	-	77
Investment in Penreal Property Trust II	**2,548**	500	-
	197,943	8,206	185,533
Accrued interest	**837**	-	689
	198,780	8,206	186,222
Less: Allowance for loan losses	**1,164**	-	806
	$ 197,616	$ 8,206	$ 185,416
Fair market value	**$ 197,841**	$ 8,206	$ 185,406

The details of the loan provisions are as follows:

	2000				1999
Allowance for credit losses	Beginning of Year	Additions	(Write Offs) Recoveries	End of Year	End of Year
Specific provisions: residential mortgages	$ 40	$ 220	$ (128)	$ 132	$ 40
General provisions	766	317	(51)	1,032	766
	$ 806	$ 537	$ (179)	$ 1,164	$ 806

(Dollar amounts in thousands except for share amounts)

Outstanding commitments for future mortgages held for resale are $4,268 at December 31, 2000. Interest rates on such mortgages are determined at the time of commitment. Outstanding commitments range for periods of up to 4 months in duration and have maturities ranging from 6 months to 5 years.

Outstanding commitments for future mortgages are $48,906 at December 31, 2000. Interest rates on future mortgages are determined at the time of commitment. Outstanding commitments range for periods of up to 4 months in duration and have maturities ranging from 6 months to 5 years with rates ranging from 6.75% to Prime + 3.75%.

The Company purchased five hundred common shares and $2 million in participating notes of 3660192 Canada Inc., a private holding corporation which provides the Company with an indirect interest in Penreal Property Trust II, a mortgage investment trust. The common shares and participating notes are to be issued at one thousand dollar each. The participating notes are unsecured and bear interest at 4% plus participation in the profit of Penreal Property Trust II. The notes mature in 2010. This investment is accounted for on the cost basis.

5. Other Investments

		2000	1999	MTC 1999
Marketable securities	(a)	**$ 9,058**	$ -	$ 9,568
Investor loans	(b)	**6,144**	-	2,979
Other investments	(c)	**1,002**	-	
Equity accounted investments		**965**	805	-
		$ 17,169	$ 805	$ 12,547

(a) Marketable Securities

	2000	1999	MTC 1999
Income, royalty and real estate investment trusts, at cost less provision for decline in value	**$ 9,058**	$ -	$ 9,568
Income, royalty and real estate investment trusts, at fair market value	**$ 10,254**	$ -	$ 9,609

(b) Investor Loans

	2000	1999	MTC 1999
Immigrant Investor Program	**$ 6,069**	-	$ 2,930
Accrued interest	**87**	-	72
	6,156	-	3,002
Less: Allowance for loan losses	**12**	-	23
	$ 6,144	-	$ 2,979
Fair market value	**$ 5,951**	-	$ 2,979

Certain debentures issued by the Company have been provided as collateral for the investor loans. These loans have a maturity of August 31, 2004 and interest rates of 4.9% to 7.33%.

(c) Other Investments

On December 4, 2000, the Company purchased a 10% interest in Filogix Inc. for cash consideration of $2,002. The investment was offset by cash on deposit of $1,000 lodged with the Company by Filogix Inc. The deposit was invested in a 90-day debenture bearing interest at 5.45%. The Company accounts for the net investment using the cost method.

(Dollar amounts in thousands except for share amounts)

6. Accounts Receivable/Payable

(a) Receivables

	2000	1999	MTC 1999
Related party receivables – MCAP Service Corporation	**$ 1,736**	$ 1	$ -
Other receivables	**3,419**	2,193	-
	$ 5,155	$ 2,194	$ -

The Company purchases/sells certain corporate services and mortgage origination and loan management services from/to MCAP Service Corporation. During 2000 the Company purchased $6,877 (1999 – $3,886) of services. In addition, the Company advanced $2,500 to MCAP Service Corporation to be repaid by January 31, 2002, bearing interest at prime lending rate.

The Company sells certain corporate services to MCAP Mortgage Corporation. During 2000, the Company sold $234 (1999 – $306) of services.

The Company sells certain corporate services to MCAP Commercial Limited Partnership. During 2000, the Company sold $1,106 of services.

In 1999, the Company had an unsecured demand loan of $2,087 from its employee profit sharing plan bearing interest at prime plus 1%.

(b) Payables

	2000	1999	MTC 1999
Related party payables	**$ -**	$ 2,709	$ -
Accounts payable and accrued charges	**8,831**	10,414	1,103
	$ 8,831	$ 13,123	$ 1,103

Related party payables consist of the following

	2000	1999	MTC 1999
MCAP Service Corporation	**$ -**	$ 622	$ -
Employee Profit Sharing Plan	**-**	2,087	-
	$ -	$ 2,709	$ -

7. Capital Assets

	2000 Cost	**2000 Accumulated Depreciation**	1999 Cost	1999 Accumulated Depreciation
Furniture and fixtures	**$ 2,104**	**$ 1,374**	$ 1,983	$ 1,229
Computer hardware	**1,646**	**1,256**	1,550	857
Computer software	**1,901**	**243**	805	66
Leaseholds	**341**	**139**	341	88
	$ 5,992	**$ 3,012**	$ 4,679	$ 2,240
Net book value	**$ 2,980**		$ 2,439	

(Dollar amounts in thousands except for share amounts)

8. Other Assets

	Note	**2000**	1999	MTC 1999
Client accounts		**$ -**	$ 436	$ -
Prepaid expenses		**244**	23	25
Deferred origination expenses		**438**	369	-
Deferred Immigrant Investor Program expenses		**333**	197	-
Deferred start up costs		**222**	-	-
Merger and acquisition costs		**-**	-	1,323
Future tax assets	12	**1,087**	445	-
		$ 2,324	$ 1,470	$ 1,348

Client accounts relate to investments made on behalf of immigrant investors as part of the 5 Year Quebec Immigrant Investor Program. Investments are made in Canada Treasury Bills and Term Deposits. These investments are due on demand.

Deferred start up costs relate to the Company's share of professional fees and other costs on the start up of MCAP Commercial Limited Partnership, a joint venture with Crown Life Insurance Company. These costs are amortized over 36 months.

9. Debentures

	2000	1999	MTC 1999
Debentures	**$ 184,507**	$ -	$ 169,589
Accrued interest	**5,143**	$ -	4,725
	$ 189,650	-	$ 174,314
Fair market value	**$ 191,064**	$ -	$ 175,599

Debentures are issued to various individuals and institutions with original maturities ranging from 30 days to 5 years and bear interest at rates ranging from 3.75% to 6.6%.

10. Loans Payable

	2000	1999	MTC 1999
The Clarica Life Insurance Company	**$ -**	$ 1	$ -
Bank of Montreal	**5,029**	2,197	-
	$ 5,029	$ 2,198	$ -

In 1999 the Company had a $25,000 demand line of credit, available from Clarica Life to fund mortgages held for resale, bearing interest at bankers acceptance rate plus 100 basis points (bps). This facility expired December 14, 2000.

The line of credit from Bank of Montreal includes a senior facility of $22,500 bearing interest at the cost of funds rate plus 50 bps and a subordinated facility of $2,500 bearing interest in an amount equal to 50% of the residual interest generated by the underlying mortgages being acquired after payments of principal, interest on the senior facility and other expenses. This facility is due and payable upon demand.

(Dollar amounts in thousands except for share amounts)

11. Share Capital

The authorized share capital of the Company is 15 million common shares with a par value of $10 per share.

	2000		1999		MTC 1999	
Issued	**Shares**		Shares		Shares	
Common shares	**7,728,978**	**$ 42,454**	7,404,072	$ 7,404	3,864,591	$ 36,017
Class A non-voting	**-**	**-**	357,000	357	-	-
	7,728,978	**$ 42,454**	7,761,072	$ 7,761	3,864,591	$ 36,017

In order to facilitate the business combination, the class A non-voting shares were exchanged for common shares and the number of shares outstanding before the combination was reduced on approximately a 0.498 for 1 basis. Shareholders of MTC received one common share of the combined corporation for each share of MTC.

The details of share capital transactions are as follows:

Common shares	Shares	
Shares outstanding January 1, 1999	7,404,072	$ 7,404
Shares issued to December 31, 1999	-	-
Shares outstanding January 1, 2000	7,404,072	7,404
Shares exchanged for class A shares	357,000	357
Reduction of MCAP shares on business combination	(3,896,685)	(1)
Shares issued to MTC shareholders on business combination	3,864,591	34,694
Shares outstanding December 31, 2000	7,728,978	$ 42,454

Class A shares	Shares	
Shares outstanding January 1, 1999	-	$ -
Shares issued to December 31, 1999	357,000	357
Shares outstanding January 1, 2000	357,000	357
Shares exchanged for common shares	(357,000)	(357)
Shares outstanding December 31, 2000	-	$ -

The Company granted Crown Life Insurance Company a right to convert its interest in MCAP Commercial LP into common shares of MCAP Inc. commencing October 1, 2002 and ending September 30, 2005. The conversion right is calculated based on an independent valuation of MCAP Commercial LP and limited to a maximum of 15% of the issued and outstanding common shares of MCAP Inc.

(Dollar amounts in thousands except for share amounts)

12. Income Taxes

	2000	1999	MTC 1999
Income (loss) before income taxes	**$ 5,537**	$ (906)	$ (2,763)
Less dividends	**(5,256)**	-	(2,779)
Income subject to tax	**281**	(906)	(16)
Statutory rate of tax	**44%**	45%	45%
Tax provision before the following:	**124**	(408)	(7)
Unrecognized loss carryforward benefit	**-**	-	7
Equity income	**(166)**	(136)	-
Recognized loss carryforward benefit	**(762)**	-	-
Provision for large corporations tax	**80**	-	58
Non-deductible expenses	**51**	179	-
Tax provision per financial statements	**$ (673)**	$ (365)	$ 58

The details of the future tax assets are as follows:

	2000	1999	MTC 1999
Loss carryforward benefit	**$ 1,303**	$ -	$ 752
Provision for loan losses	**216**	325	-
Capital assets	**250**	264	-
Deferred mortgage expenses	**8**	(162)	-
Deferred immigrant investor expenses	**(150)**	-	-
Other	**47**	18	-
Valuation reserve	**(587)**	-	-
	$ 1,087	$ 445	$ 752

The Company is a mortgage investment corporation under the Income Tax Act (Canada). As such, it is permitted to deduct from income for tax purposes dividends paid to shareholders during the year and within 90 days thereafter. The Company intends to continue conducting its affairs in such a manner as to continue qualifying as a mortgage investment corporation under the Income Tax Act (Canada).

The Company has losses for tax purposes of $1,371, which have not been deducted. These amounts may be used to reduce the taxable income of future periods. If unapplied, these carryforward amounts will expire as follows:

2001	$ 209
2002	526
2003	$ 636

In addition to the loss carryforward amounts above, the Company's subsidiary MCAP Financial Corporation has a loss carryforward of $1,591 which will expire in 2005.

13. Interest Rate Sensitivity

Interest rate risk arises when principal and interest cash flows, both on and off balance sheet, including final maturities, have mismatched repricing dates. Interest rate risk, or sensitivity, is the potential impact of changes in interest rates on financial assets and liabilities.

(Dollar amounts in thousands except for share amounts)

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing. The former provides a positive earnings impact in the event of an increase in interest rates during the time period. Conversely, negative gaps are positively positioned for decreases in interest rates during the particular time period. The determination of the interest rate sensitivity or gap position is based upon the earlier of the repricing or maturity date of assets, liabilities and includes numerous assumptions.

The gap position presented is measured at the close of business on December 31, 2000. That position is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The following table presents the assets and liabilities of the Company by interest rate sensitivity:

	Within 12 months	1 to 5 years	Over 5 years	Non interest sensitive	Total	MTC 1999
ASSETS						
Investments						
Cash and cash equivalents	$ 21,211	$ -	$ -	$ -	$ 21,211	$ 12,123
Marketable securities	-	-	-	9,058	9,058	9,568
Mortgages held for resale	7,906	-	-	-	7,906	-
Mortgages	114,545	70,866	2,727	1,572	189,710	185,416
Investor loans	-	6,144	-	-	6,144	2,979
Investment in partly owned companies	-	-	-	965	965	-
Other investments	-	-	-	1,002	1,002	-
	143,662	77,010	2,727	12,597	235,996	210,086
Related party receivables	-	-	-	1,736	1,736	-
Capital assets	-	-	-	2,980	2,980	-
Other receivables	-	-	-	3,419	3,419	-
Future tax assets	-	-	-	1,087	1,087	-
Other assets	-	-	-	1,237	1,237	1,348
Total Assets	$ 143,662	$ 77,010	$ 2,727	$ 23,056	$ 246,455	$ 211,434
Yield	8.16%	7.58%	7.21%	5.31%	7.70%	7.52%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Debentures	$ 146,459	$ 37,781	$ -	$ 5,410	$ 189,650	$ 174,314
Accounts payable and accrued charges	-	-	-	8,831	8,831	1,103
Loans payable	5,029	-	-	-	5,029	-
Related party payables	-	-	-	-	-	-
Equity	-	-	-	42,945	42,945	36,017
Total Liabilities and Shareholders' Equity	$ 151,488	$ 37,781	$ -	$ 57,186	$ 246,455	$ 211,434
Yield	5.56%	5.63%	-	-	4.32%	4.53%
GAP	**$ (7,826)**	**$ 39,229**	**$ 2,727**	**$ (34,130)**	**-**	**-**
YIELD SPREAD	**2.60%**	**1.95%**	**7.21%**	**5.31%**	**3.38%**	**2.99%**

Mortgages with floating interest rate terms are included in assets which reprice within twelve months. The maturities of these assets are as follows: 12 months-$35,644, 1 to 5 years-$4,324.

(Dollar amounts in thousands except for share amounts)

14. Joint Venture Operations

The Corporation has a 50% interest in the MCAP Commercial Limited Partnership which is accounted for using the proportionate consolidation method.

A summary of the corporation's proportionate interest in the joint venture at December 31, 2000, which commenced operations on September 1, 2000 is as follows:

Statement of Income		
Revenue from operations	$	503
Operating expenses		683
Net loss, resulting during start up	$	(180)
Balance Sheet		
Cash and cash equivalents	$	359
Other assets		219
	$	578
Accounts payable and accrued charges	$	37
Related party payable		221
		258
Partners' capital		500
Partners' deficit		(180)
		320
	$	578
Statement of Cash Flows		
Operating activities	$	(141)
Financing activities		500
Increase in cash and cash equivalents	$	359

15. Borrowing and Capital Ratios

The Company operates as a Mortgage Investment Corporation as defined under the Income Tax Act. Under the Act, the Company's ability to accept deposits from the public is limited through the regulation of its borrowing ratio which is defined as the ratio of deposits and other borrowings to capital and reserves. The maximum authorized borrowing ratio of the company is currently 5.0. As at December 31, 2000 the ratio was 4.37 (MTC 1999 – 4.8).

The Company is regulated under the Trust and Loan Companies Act. The Trust and Loan Companies Act defines two tiers of capital and computes capital ratios in relation to risk-weighted assets. OSFI has issued guidelines to federally regulated companies for capital adequacy which include meeting a minimum ratio of 8%. As at December 31, 2000, the ratio was 25.26% (MTC 1999 – 36.7%).

The second capital adequacy requirement of OSFI is an assets to capital multiple which is calculated by dividing the Company's total assets by its total capital. The Company's required regulatory capital ratio is a maximum multiple of 6.0 As at December 31, 2000 the Company has assets to capital multiple of 5.85 (MTC 1999 – 5.9).

(Dollar amounts in thousands except for share amounts)

16. Hedging Instruments

In the normal course of business, the Company enters into hedging transactions to manage market interest rate exposures on its unsold mortgage commitments and mortgages held for resale. Hedging gains and losses are expensed into income in the same year as sales of related mortgages occur.

The Company is subject to market risk, which represents the potential for changes in the value of assets and liabilities due to fluctuations in bond interest rates. The notional amounts of these hedges are:

Government of Canada Bonds

	2000			1999		
Term (Years)	**Notional Amount**	**Market Value**	**Unrealized Loss**	Notional Amount	Market Value	Unrealized (Gain) Loss
1 to 2	-	-	-	-	-	-
2 to 3	-	-	-	$ (5,606)	$ (5,609)	$ 3
3 to 4	**$ (5,027)**	**$ (5,177)**	**$ 150**	(1,051)	(1,044)	(7)
4 to 5	-	-	-	(2,566)	(2,524)	(42)
5 to 6	**(1,034)**	**(1,082)**	**48**	-	-	-
Total	**$ (6,061)**	**$ (6,259)**	**$ 198**	$ (9,223)	$ (9,177)	$ (46)

These unrealized gains/losses are offset by unrealized losses/gains on mortgages held for resale.

17. Lease Commitments

The future minimum annual lease commitments for premises are as follows:

	2000
2001	$ 1,702
2002	1,462
2003	76
2004	70
2005	69
	$ 3,379

Included in these figures are $105 of subleasing costs to a related party in 2001, and $87 of subleasing costs to a related party in 2002.

(Dollar amounts in thousands except for share amounts)

18. Assets Under Administration

Assets under administration consist primarily of various construction and commercial loans as well as cash collateral accounts administered on behalf of the investors. The Company earns origination and administration fees on these assets.

	2000	1999	MTC 1999
Assets under administration	**$ 1,036,585**	$ 905,217	$ -

19. Retirement Programs

The Company has established retirement programs for its employees, including a group registered retirement savings plan (GRSP) and a deferred profit sharing plan (DPSP). The Company matches employee contributions to the GRSP to the following levels after one year of service.

Years of Service	Percentage of Employee Earnings
1 - 6	2.5
6 - 11	5.0
11 and over	7.0

The Company makes additional contributions to the DPSP account of individuals who have been employed by the Company as at December 31, 1998 as follows:

Year of Service to MCAP and/or Clarica Life prior to December 31, 1998	Percentage of Employee Earnings
0 - 2	0.5
2 - 6	0.75 to 3.75
6 - 11	1.0 to 4.0
11 and over	1.25 to 4.25

The level of DPSP contribution also depends on the age of the employee at December 31, 1998.
The retirement program expenses recorded for the year ended December 31, 2000 were $271 (1999 - $229).

20. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

Directors

MCAP INC.

Margaret J. Barrett, M.A.
CEO, Merrill Lynch HSBC
- Chairman of the Human Resources and Compensation Committee
- Director since February 2000

David G. Broadhurst, B.A., C.A.
President and COO, Reeve Court Insurance Limited
- Member of the Conduct Review and Corporate Governance Committee
- Member of the Audit Committee
- Director since May 1997

Douglas A.C. Davis, A.B., M.B.A.
President, Davis-Rea Ltd.
- Member of the Investment Committee
- Director since January 1991

Raymond Doré, C.A.
Chairman and CEO, MCAP Financial Corporation
- Chairman of the Board of MCAP Inc.
- Member of the Human Resources and Compensation Committee
- Director since May 1997

Rudolph W. Gardner, Q.C.
Counsel, Fasken Campbell Godfrey
- Chairman of the Conduct Review and Corporate Governance Committee
- Member of the Audit Committee
- Director since January 1991

Brian Johnson, B.Com., M.B.A., F.L.M.I., C.F.A.
President and CEO, Crown Life Insurance
- Member of the Conduct Review and Corporate Governance Committee
- Director since January 2001

David A. MacIntosh, M.A.
Company Director
- Chairman of the Investment Committee
- Director since January 2000

E. Boyd Marsh, C.A.
Chairman, Savile Financial Services Inc.
- Chairman of the Audit Committee
- Member of the Human Resources and Compensation Committee
- Director since January 1991

Derek Norton, B.Com.
President and CEO, MCAP Inc.
- Director since July 2000

Ian Sutherland, B.Com., C.A., C.F.A.
Chairman, North West Company
- Member of the Investment Committee
- Director since January 1991

MCAP FINANCIAL CORPORATION

David G. Broadhurst, B.A., C.A.
President and COO, Reeve Court Insurance Limited

S. Scott Cameron, B.A., M.B.A.
President and COO, MCAP Financial Corporation

Raymond Doré, C.A.
Chairman and CEO, MCAP Financial Corporation

Steven W. Maker, B.Com., C.A.
President and CEO, MCAP Service Corporation

Derek Norton, B.Com.
President and CEO, MCAP Inc.

Robert Stuebing, B.A., M.B.A., F.I.C.B.
Senior Vice-President, MCAP Financial Corporation

Ian Sutherland, B.Com., C.A., C.F.A.
Chairman, North West Company

Blaine Welch, Hons. B.Sc., M.B.A.
Senior Vice-President, MCAP Financial Corporation

MCAP MORTGAGE CORPORATION

C. Robert Buckner, B.Sc., C.G.A.
Vice-President Business Development, Bank of Montreal

Raymond Doré, C.A.
Chairman and CEO, MCAP Financial Corporation

Peter Kidnie
Vice-President, Bank of Montreal

Michael Stramaglia, Hons. B.Math., F.S.A., F.C.I.A.
Executive Vice-President Investments, Clarica Life Insurance Company

MCAP SERVICE CORPORATION

C. Robert Buckner, B.Sc., C.G.A.
Vice-President Business Development, Bank of Montreal

Raymond Doré, C.A.
Chairman and CEO, MCAP Financial Corporation

Peter Kidnie
Vice-President, Bank of Montreal

Michael Stramaglia, Hons. B.Math., F.S.A., F.C.I.A.
Executive Vice-President Investments, Clarica Life Insurance Company

MCAP SECURITIES INC.

Philip Asseff, Hons. B.A., P.Eng., M.B.A.
President and CEO, MCAP Securities Inc.

Susan Doré, C.G.A.
Vice-President and CFO, MCAP Securities Inc.

Robert Stuebing, B.A., M.B.A., F.I.C.B.
Senior Vice-President, MCAP Financial Corporation

Officers and Management

CORPORATE

Raymond Doré
Chairman and CEO, MCAP Financial Corporation
Philip Asseff
President and CEO, MCAP Securities Inc.
S. Scott Cameron
President and COO, MCAP Financial Corporation
Steven W. Maker
President and CEO, MCAP Service Corporation
A. D. (Ric) McGratten
President and CEO, MCAP Mortgage Corporation
Derek Norton
President and CEO, MCAP Inc.
Robert Stuebing
Senior Vice-President Investment Banking, MCAP Financial Corporation
Blaine Welch
Senior Vice-President Risk Management, MCAP Financial Corporation
George Elliott
Executive Vice-President Business Development, MCAP Financial Corporation
Lorne S. Jenkins
Vice-President and CFO
Patti Somers
Vice-President Systems
Susan Doré
Corporate Secretary

RESIDENTIAL CONSTRUCTION ORIGINATION

Robert Balfour
Vice-President Real Estate Lending, MCAP Financial Corporation
Alexander Fox
Vice-President Real Estate Lending, MCAP Financial Corporation
Robert Maciver
Vice-President Real Estate Lending, MCAP Financial Corporation
Kenneth Teskey
Vice-President Residential Construction, MCAP Financial Corporation
Mark Yhap
Vice-President Residential Construction, MCAP Financial Corporation

COMMERCIAL LOAN ORIGINATION

Joseph Barbieri
Vice-President, MCAP Commercial LP

SINGLE FAMILY RESIDENTIAL ORIGINATION

Ronald Swift
Senior Vice-President, MCAP Mortgage Corporation
Bryan Devries
Regional Vice-President Eastern Canada, MCAP Mortgage Corporation
Joe Santos
Regional Vice-President Western Canada, MCAP Mortgage Corporation

MORTGAGE MANAGEMENT / OUTSOURCING

Jeffery Armstrong
Vice-President Credit, MCAP Service Corporation
Cheryl Preston
Vice-President National Servicing Operations, MCAP Service Corporation
Jack Shapiro
Vice-President Key Accounts, MCAP Service Corporation
Nuala Taylor
Vice-President and Director, MCAP Securities Inc.

OPERATIONS

Cathy Hogg
Vice-President Operations, MCAP Mortgage Corporation
Bruno Iacovetta
Vice-President Risk Management, MCAP Financial Corporation
Robert May
Vice-President Technology Architecture, MCAP Service Corporation
Carol Schutzman
Vice-President and Corporate Controller

Corporate Directory and Information

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CORPORATE INFORMATION

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Ernst & Young LLP
Toronto, Ontario

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Wildeboer Rand Thompson
Apps & Dellelce
Toronto, Ontario

Bank
Bank of Montreal
First Canadian Place
Toronto, Ontario

Registrar and Transfer Agent
The Trust Company of
Bank of Montreal
Montreal, Quebec

Web Sites
Corporate
mcap.com
Immigrant Investor
newcanadianplan.com
Investor Services
investorinquiry.com

Public Listing
Toronto Stock Exchange
Exchange symbol MKP

Annual Meeting
May 17, 2001 at 4:00 p.m.
Canadian Bar Association
200-20 Front Street E.
Toronto, Ontario

AFFILIATIONS

MCAP is a member of the following organizations:
Alberta Mortgage Brokers Association
Canadian Institute of Mortgage Brokers and Lenders
Canadian Investor Protection Fund
Canadian Management Centre
Commercial Mortgage and Lender Association
Investment Dealers Association
Mortgage Bankers Association of America
Mortgage Brokers Association of British Columbia
National Association of Industrial and Office Properties
Ontario Long Term Care Association
Societas International
Urban Development Institute

MCAP is regulated by the following regulatory bodies:
Canada Deposit Insurance Corporation
Commercial Mortgage Securities Association (US)
Financial Services Commission of Ontario
Office of the Superintendant of Financial Institutions
Real Estate Institute of British Columbia
The Mortgage Loans Association of Alberta

MCAP has significant business relationships with the following organizations:
Bank of Montreal
Clarica Life Insurance Company
Crown Life Insurance Company
Data Select Systems, Inc.
Filogix
ING Direct
Manulife Bank
MetLife
Penreal Property Trust
Plexus Systems Inc.
Teranet
TD Canada Trust
Xceed Mortgage Corporation

MCAP receives mortgage insurance coverage from:
Canada Mortgage and Housing Corporation
GE Capital Mortgage Insurance Corporation

MCAP supports the following charitable organizations:
Habitat for Humanity
United Way

MCAP Inc.

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